

Report of Examination of the

# Alpha Dental of Utah, Inc.

Salt Lake City, Utah  
as of December 31, 2015

NAIC Company Code #11174

Presented to:



State of Utah  
Insurance Department  
Salt Lake City, Utah



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May 4, 2017

Honorable Todd E. Kiser, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

**RE:   Alpha Dental of Utah, Inc.**

Dear Honorable Commissioner:

Pursuant to instructions and in compliance with the provisions of Utah Code Annotated (U.C.A.) §31A-2-204(6)(a), and the rules, regulations and provisions promulgated by the National Association of Insurance Commissioners, an examination of the financial condition and business affairs has been conducted of:

Alpha Dental of Utah, Inc.  
Salt Lake City, Utah

hereinafter referred to as the "Company."

The following report of examination is respectfully submitted.

## SCOPE OF THE EXAMINATION

We have performed our full-scope examination of the Company, done in conjunction with a coordinated group examination led by the Delaware Insurance Department. The last financial examination of the Company, by representatives of the Utah Insurance Department ("UID"), was for the period January 1, 2009 through December 31, 2012. This examination covers the period January 1, 2013 through December 31, 2015, and any material transactions and/or events occurring subsequent and noted during the examination. The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* ("Handbook"). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in Utah Code Annotated (U.C.A.) §31A-2-204(6)(a), and general information about the insurer and its financial condition.

## SUMMARY OF SIGNIFICANT FINDINGS

### PRIOR EXAMINATION

There were no significant findings noted in the prior examination.

## CURRENT EXAMINATION

There were no significant findings to report in the current examination.

## COMPANY HISTORY

Alpha Dental of Utah, Inc. (ADUI) is a wholly-owned subsidiary of DDC Insurance Holdings, Inc., a Delaware holding company, that is 100% owned and controlled by Delta Dental of California (DDC), a California non-profit corporation. DDC is under the umbrella of Dentegra, which is the ultimate holding company.

ADUI is licensed by the Utah Insurance Department (UID) as a not-for-profit prepaid dental plan. ADUI administers and underwrites dental care programs under agreements with various employer groups, individuals and panel providers in the State of Utah.

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

At December 31, 2015, and during the examination period, the following individuals served as Directors of the Company:

Name	Location	Title and Principal Occupation
Anthony S. Barth	Tiburon, CA	President and CEO
Michael J. Castro	Belmont, CA	Executive Vice President and CFO
Jeffrey M. Album	Lafayette, CA	Vice President, Public & Government Affairs
Nilesh C. Patel	San Ramon, CA	Senior Vice President, Operations & State Government Programs
John M. Yamamoto, DDS	Alamo, CA	Vice President, Professional Services

The officers of the Company as of December 31, 2015, were as follows:

Name	Title
Anthony S. Barth	Chair
Belinda Martinez	President
Melissa Kay Gee, Esq.	Secretary
Michael J. Castro	Treasurer

Committees and the respective committee members of the Company as of December 31, 2015, were as follows:

Committee	Name
<b>Audit</b>	Glen F. Bergert, Chair Aidan M. Collins Terry A. O'Toole Andrew J. Reid Thomas A. Zimmerman
<b>Finance</b>	Terry A. O'Toole, Chair Glen F. Bergert Aidan M. Collins Andrew J. Reid Thomas A. Zimmerman
<b>Investment</b>	Michael J. Castro, Chair Anthony S. Barth Alicia F. Weber Jeanne M. Foster Kevin L. Jackson

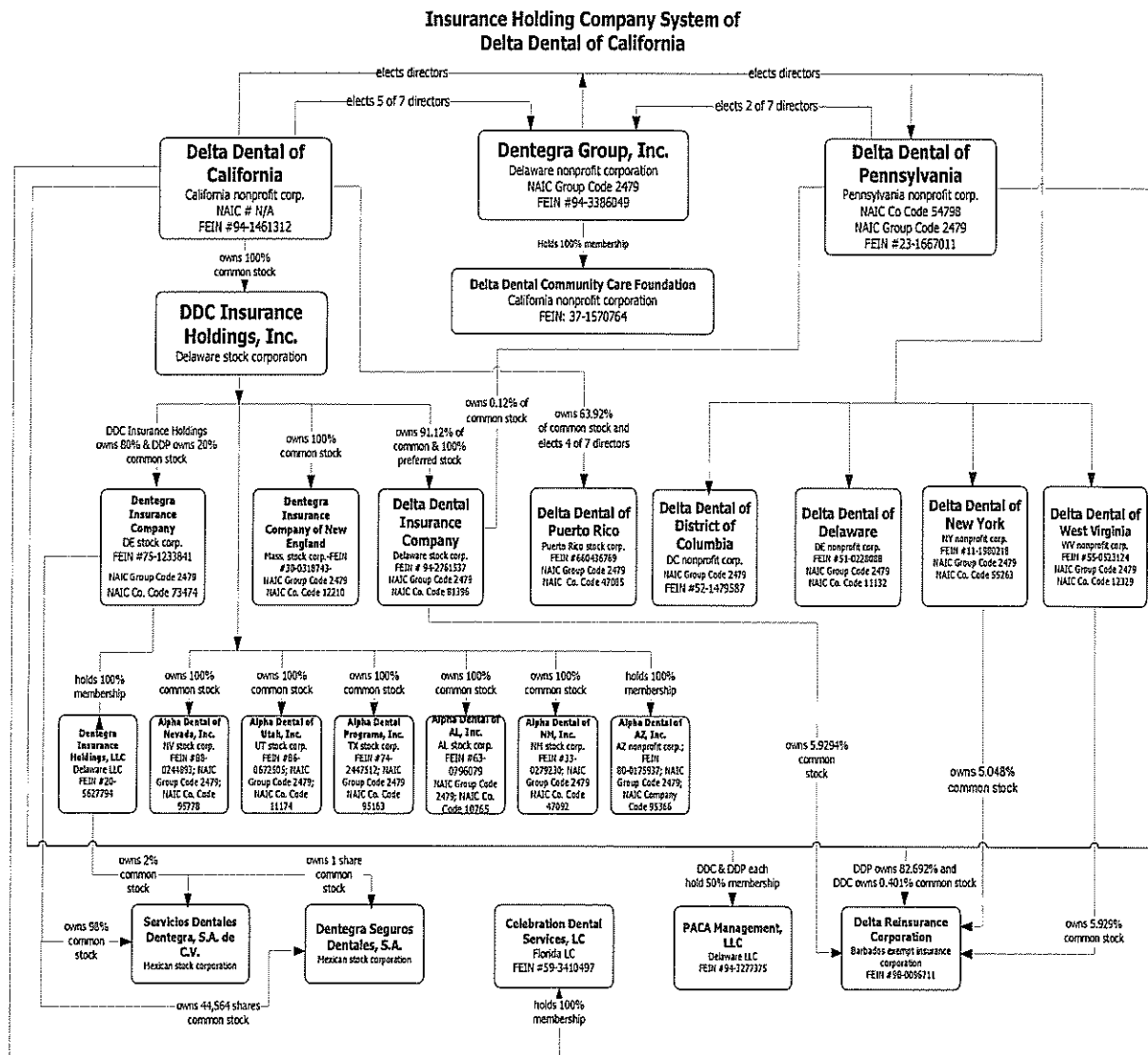
## CORPORATE ORGANIZATION

The Company is a member of the Dentegra Group holding company. The ultimate controlling entity of which is DDC by reason of DDC electing the majority of Directors of the Dentegra Group, a Delaware non-profit corporation. The Dentegra Group Directors elect the Directors of DDC, which in turn owns 100% of the Company.

The Dentegra Group is bifurcated into two parent companies; DDC and Delta Dental of Pennsylvania (DDP). The Dentegra Group integrates the two parent companies and their subsidiaries to deploy resources more efficiently, share best practices, develop economies of scale, and grow markets in a coordinated fashion, thus maximizing the ability to bring new services to its subscribers, clients and partner dentists.

The Company and other certain companies in the holding company system are members of the Delta Dental Plans Association (DDPA), a nationwide system of independently-operated dental health service plans that offer subscribers access to the national provider networks under the Delta USA program and access to the local provider networks maintained by the Dentegra Group.

## ORGANIZATIONAL CHART



## RELATED PARTY AGREEMENTS

The Company had affiliated company agreements to include a Management Agreement, Administrative Services Agreement and Consolidated Tax Sharing Agreement. Below is a description of each affiliated company agreement in force during the examination period.

### Management Agreement

Effective January 1, 2007, the Company entered into a Management Agreement with the parent company, DDC. The Company does not have any direct employees, therefore DDC provides all

necessary personnel to perform all day-to-day operations through the Management Agreement. Services provided by DDC include; underwriting and regulatory filings, marketing, provider relations, group and member relations, quality assurance, and accounting and financial support.

DDC is reimbursed for all direct costs for services provided under the Management Agreement plus a percentage of indirect administrative costs. The Management Agreement is automatically renewed annually unless terminated by either party upon 90 days written notice.

### **Administrative Services Agreement**

Effective January 1, 2007, the Company entered into an Administrative Services Agreement with Delta Dental Insurance Company (DDIC). Under terms of the Administrative Agreement, DDIC provides administrative services for the Company that include; billing, collection, and deposit of the Company's premiums; distribution of premium refunds; broker commission payments and other marketing or administrative costs; payment of premium taxes; assessments and other charges; and payment of health care expenses incurred by the Company for covered services.

DDIC is reimbursed for all direct or allocated costs for services provided under the Administrative Services Agreement plus a percentage of indirect administrative costs. The Management Agreement is automatically renewed annually unless terminated by either party upon 90 days written notice.

Subsequent to the examination date and effective April 1, 2016, Amendment 1 was entered into, which clarifies collections and services, redefines the components of compensation, updates some accounting and reporting of records, and added clarification about arbitration and no third party benefit.

### **Consolidated Tax Sharing Agreement**

Effective January 1, 2011, the Company became party to a Consolidated Tax Sharing Agreement with the direct parent, DDCIH and other affiliated companies. In accordance with the terms of the agreement, DDCIH will prepare and file all tax returns on behalf of its majority-owned or controlled subsidiaries. The purpose of the Consolidated Tax Sharing Agreement is to provide the methodology and procedures for allocating the consolidated federal tax liability or tax benefit to and amongst the stated companies in the Consolidated Tax Sharing Agreement.

## **TERRITORY AND PLAN OF OPERATION**

The Company was licensed and authorized to transact dental insurance in the State of Utah as of December 31, 2015.

The Company operates and is only licensed to sell in the State of Utah.



## **REINSURANCE**

The Company did not assume or cede any reinsurance during the examination period.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the UID and present the financial condition of the Company for the period ending December 31, 2015. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Please note that failure of any of the following items to add to the totals shown is due to rounding.

**Alpha Dental of Utah, Inc.**  
**Balance Sheet (Assets)**  
**December 31, 2015**

	<b>Net Admitted Assets</b>
Bonds	827,025
Cash	619,155
Subtotals, cash and invested assets	1,446,180
Investment income due and accrued	9,492
Uncollected premiums and agents' balances in the course of collection	15,820
Receivables from parent, subsidiaries and affiliates	53,193
Aggregate write-ins for other than invested assets: Misc. receivables	980
<b>Total assets</b>	<b>1,525,665</b>

**Alpha Dental of Utah, Inc.**  
**Liabilities, Surplus, and Other Funds**  
**December 31, 2015**

	<b>2015</b>
<b>Liabilities, Surplus, and Other Funds</b>	
Claims unpaid	47,000
Unpaid claims adjustment expenses	3,000
Premiums received in advance	48,088
General expenses due or accrued	33,414
Current federal and foreign income tax payable and interest thereon	102,539
Amounts due to parent, subsidiaries and affiliates	9,743
Aggregate write-ins for other liabilities: Escheatable funds	135
<b>Total liabilities</b>	<b>243,919</b>
<b>Surplus</b>	
Common capital stock	10,000
Gross paid in and contributed surplus	1,119,552
Unassigned funds	152,194
Surplus as regards policyholders	1,281,746
<b>Total Liabilities, Surplus, and Other Funds</b>	<b>1,525,665</b>

**Alpha Dental of Utah, Inc.**  
**Statement of Income**  
**December 31, 2015**

	<b>2015</b>
<b>Revenues</b>	
Net premium income	959,617
Change in unearned premium reserves and reserve for rate credits	14,641
Aggregate write-ins for other health care related revenues: Administration Income	3,120
Total Revenues	977,378
<b>Hospital and Medical</b>	
Other professional services	571,998
Outside referrals	1,013
Aggregate write-ins for other hospital and medical: Grievances	136
Total Hospital and Medical	573,147
Claims adjustment expenses	(6,733)
General administrative expenses	133,969
Total Underwriting Deductions	700,383
Net underwriting gain or (loss)	276,995
Net investment income earned	15,940
Net gain or (loss) from agents' or premium balances charged off	(2,150)
Net income or (loss) after capital gains tax and before all other federal income taxes	290,785
Federal and foreign income taxes incurred	101,775
<b>Net income (loss)</b>	<b>189,010</b>

**Alpha Dental of Utah, Inc.**  
**Capital and Surplus Account**  
**December 31, 2015**

<b>Capital and Surplus Account</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Capital and surplus prior reporting year	\$1,093,515	\$964,218	\$956,278
Net Income or (loss)	189,010	129,294	7,980
Change in nonadmitted assets	(779)	3	(40)
Net change for capital and surplus	188,231	129,297	7,940
<b>Capital and Surplus end of reporting year</b>	<b>\$1,281,746</b>	<b>\$1,093,515</b>	<b>\$964,218</b>

## SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There were no significant findings or recommendations

## SUBSEQUENT EVENTS

There were no subsequent events that would require disclosure.

## CONCLUSION

The examination procedures, described, herein, revealed no material findings or recommendations.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

D. Shane Sadler, MPA, CFE, SPIR, participated as the Examiner-In-Charge of the examination. Donald Catmull, CFE, Assistant Chief Examiner, of the UID supervised the examination. All join in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully submitted,



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D. Shane Sadler, MPA, CFE, SPIR  
Examiner-In-Charge  
State of Utah Insurance Department